

**OAK CITY, UTAH  
BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORTS  
YEAR ENDED JUNE 30, 2006**

# **OAK CITY**

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

**August 21, 2006**

**Honorable Mayor  
Members of the City Council  
Oak City, Utah**

**Council Members:**

**I have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Oak City, Utah (City) as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.**

**I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.**

**In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.**

**In accordance with *Government Auditing Standards*, I have also issued a report dated August 21, 2006 on my consideration of Oak City, Utah's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.**

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United State of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Oak City's basic financial statements. The schedule of impact fees described in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of impact fees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on it.

  
Greg Ogden,  
Certified Public Accountant

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Oak City, we offer readers of Oak City's financial statements this narrative overview and analysis of the financial activities of Oak City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements which follow this section.

### FINANCIAL HIGHLIGHTS

- The total net assets of Oak City increased \$19,770 to \$1,648,259. The governmental net assets increased by \$3,646 and the business-type net assets increased by \$16,124.
- The total net assets of \$1,648,259 are made up of \$921,634 in capital assets such as land, right of way, water rights, buildings and equipment and \$726,625 in other net assets. The \$726,625 in other net assets is made up of \$80,767 which is reserved for capital projects, and the remaining \$645,858 is unrestricted.
- Total long-term liabilities of the Town decreased by \$29,275. The key factor in the decrease was the payment of bonds without incurring new bonds.

### REPORTING THE TOWN AS A WHOLE

This discussion and analysis is intended to serve as an introduction to Oak City's basic financial statements. Oak City's basic financial statements comprise three components:

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

***The government-wide financial statements*** are designed to provide readers with a broad overview of Oak City's finances, in a manner similar to a private-sector business.

- ***The statement of net assets*** presents information on all of Oak City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Oak City is improving or deteriorating. However, you will also need to consider other nonfinancial factors.
- ***The statement of activities*** presents information showing how the Town's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both of the government-wide financial statements

distinguish functions of Oak City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government-wide financial statements can be found on pages 12-14 of this report.

## **REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Oak City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

- Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental fund (as determined by generally accepted accounting principles) is the General Fund.

- Proprietary funds - Oak City maintains one type of proprietary fund: Enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Oak City uses enterprise funds to account for its Electric Utility and Water Utility. As determined by generally accepted accounting principles, the Electric and Water enterprise funds meet the criteria for major fund classification.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Oak City, assets exceed liabilities by \$1,648,259.

The Town uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### STATEMENT OF NET ASSETS

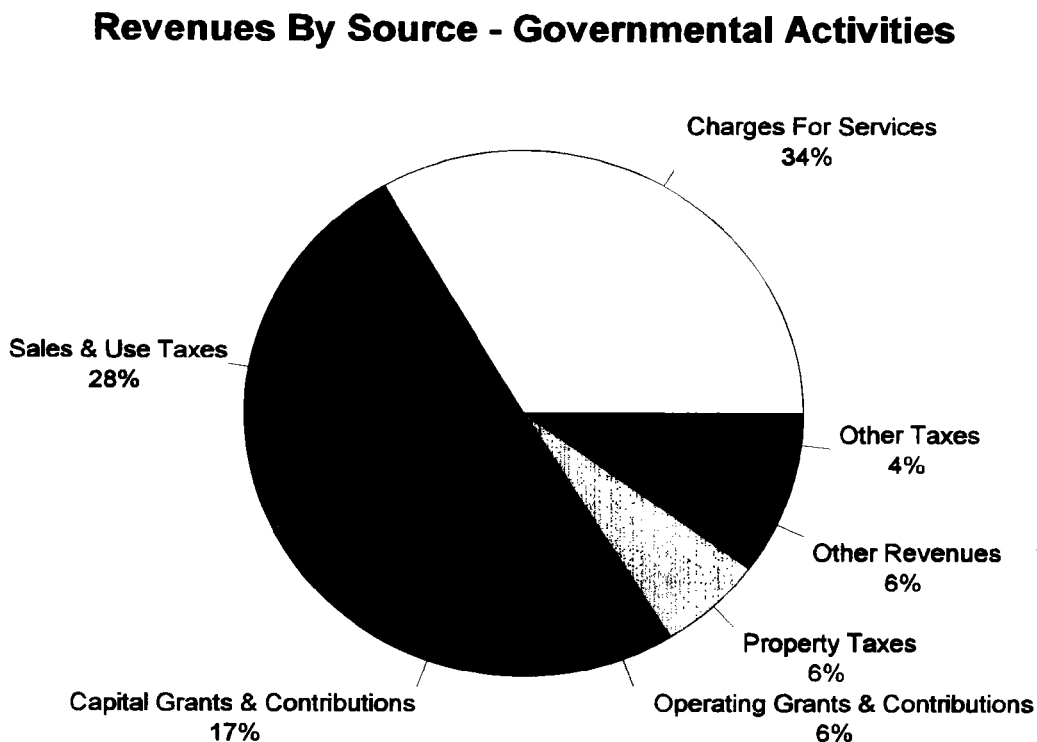
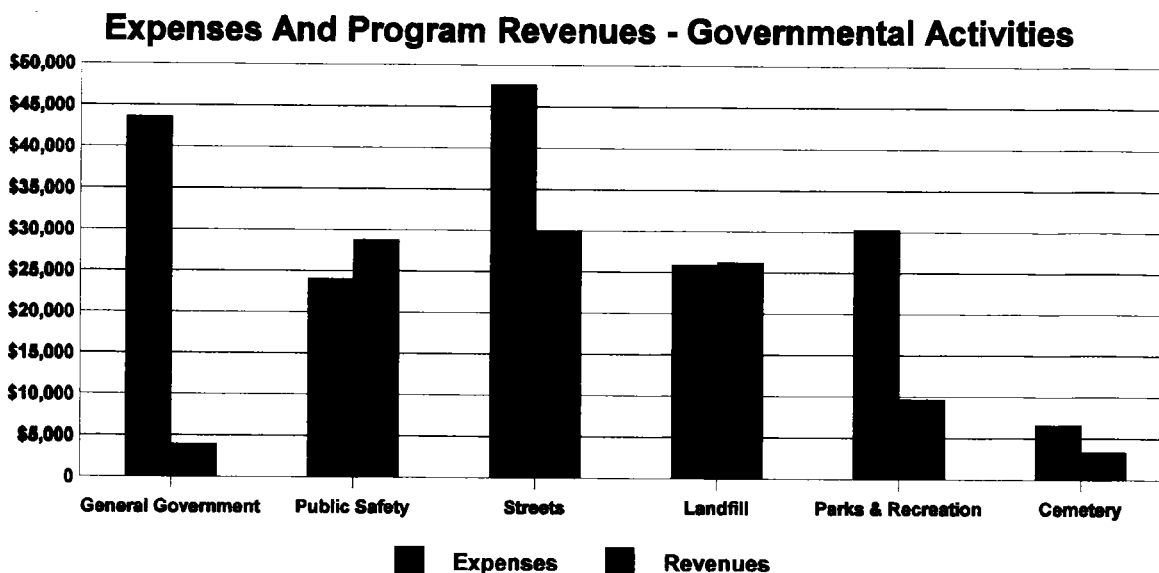
	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2005-2006</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2004-2005</u>
Current and Other Assets	\$ 92,917	\$ 123,710	\$ 478,269	\$ 394,589
Capital Assets	<u>754,029</u>	<u>717,242</u>	<u>1,281,209</u>	<u>1,364,233</u>
Total Assets	<u>846,946</u>	<u>840,952</u>	<u>1,759,478</u>	<u>1,758,822</u>
Long-term Debt Outstanding	-	-	926,119	955,394
Other Liabilities	<u>7,524</u>	<u>5,176</u>	<u>24,522</u>	<u>10,715</u>
Total Liabilities	<u>7,524</u>	<u>5,176</u>	<u>950,641</u>	<u>966,109</u>
Net Assets:				
Invested in Capital Assets				
Net of Debt	673,262	542,870	248,372	306,159
Restricted	80,767	79,354	-	-
Unrestricted	<u>85,393</u>	<u>213,552</u>	<u>560,465</u>	<u>486,554</u>
Total Net Assets	<u>\$ 839,422</u>	<u>\$ 835,776</u>	<u>\$ 808,837</u>	<u>\$ 792,713</u>



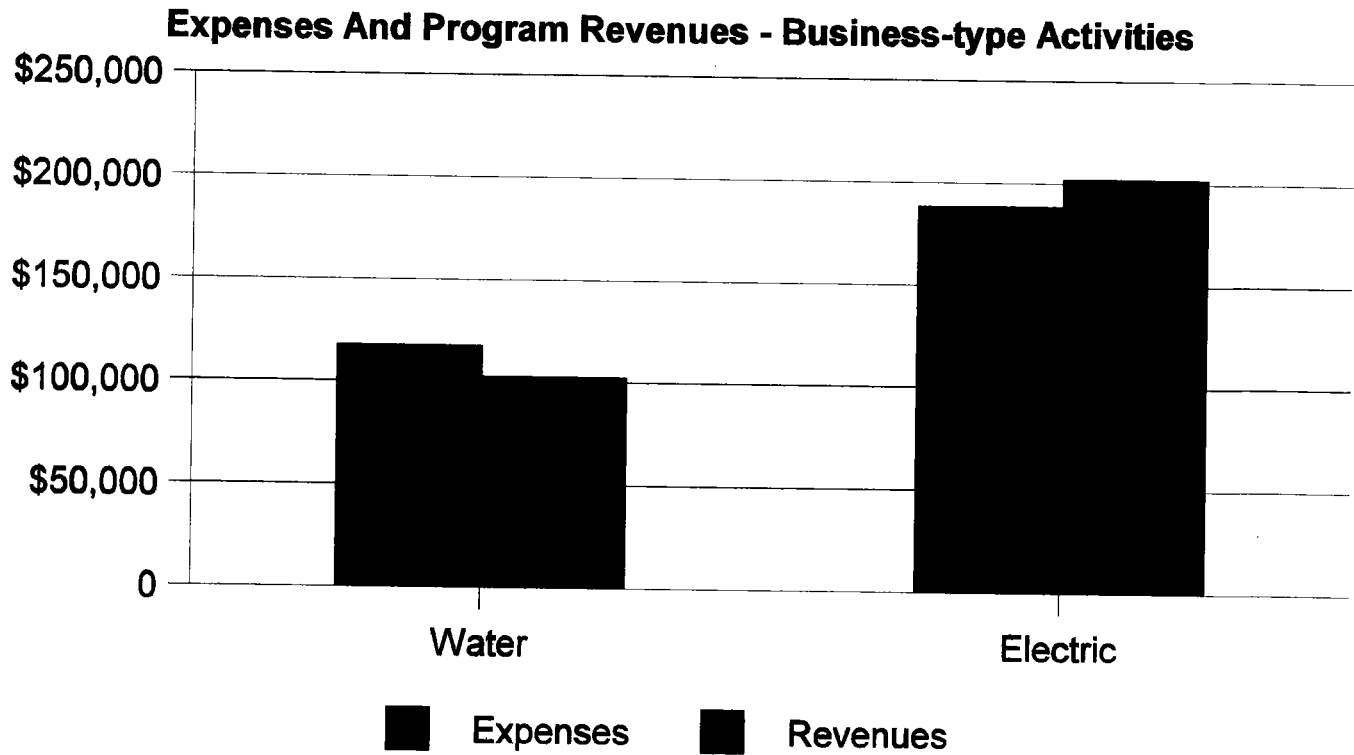
# CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities	
	<u>2005-2006</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2004-2005</u>
Revenues				
Program Revenues:				
Charges for Services	\$ 60,917	\$ 58,584	\$ 304,716	\$ 283,016
Operating Grants and Contributions	11,026	8,787	-	-
Capital Grants and Contributions	29,985	45,363	-	26,097
General Revenues:				
Property Taxes	10,965	10,437	-	-
Sales and Use Taxes	50,814	47,867	-	-
Other Taxes	6,955	8,890	-	-
Other Revenues	<u>10,916</u>	<u>10,335</u>	<u>17,732</u>	<u>9,818</u>
Total Revenues	<u>181,578</u>	<u>190,263</u>	<u>322,448</u>	<u>318,931</u>
Expenses				
General Government	43,557	38,619	-	-
Public Safety	24,027	22,411	-	-
Streets	47,651	32,176	-	-
Landfill	25,862	20,140	-	-
Parks, Recreation & Public Prop.	30,283	32,644	-	-
Cemetery	6,552	4,620	-	-
Water	-	-	117,708	115,187
Electric	<u>-</u>	<u>-</u>	<u>188,616</u>	<u>180,878</u>
Total Expenses	<u>177,932</u>	<u>150,610</u>	<u>306,324</u>	<u>296,065</u>
Change in Net Assets	3,646	39,653	16,124	22,866
Net Assets Beginning (7/01/05)	<u>835,776</u>	<u>796,123</u>	<u>792,713</u>	<u>769,847</u>
Net Assets Ending (6/30/06)	<u>\$ 839,422</u>	<u>\$ 835,776</u>	<u>\$ 808,837</u>	<u>\$ 792,713</u>

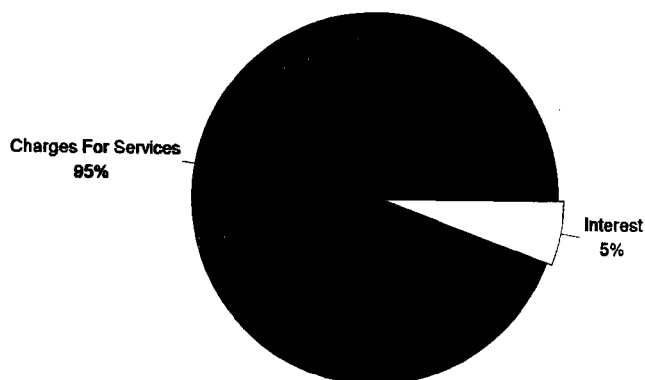
The following graphs display the government-wide activities for governmental activities reflected in the above schedules. Program revenues included in the first graph are fees charged for specific services performed by the various governmental functions. General revenues such as property taxes, sales and uses taxes, etc. are not included.



As can be seen from the following charts, the majority of revenues in the business-type activities are in charges for services with 95% of the revenues coming from this source.



**Revenue By Source - Business-type Activities**



## **FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS**

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. As of the June 30, 2006, the Town's governmental fund equity was \$155,384. This represents a decrease of \$127,080 over last year's ending balances. The General Fund is the chief operating fund of the Town. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses, are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 38% of total general fund revenues. The largest element of taxes is sales and use taxes as it has been for the last several years.

As stated earlier, the Town maintains two enterprise funds to account for the business-type activities of the Town. The separate fund statements included in this report provides the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the fiscal year, the General Fund original budget was amended from an original budget expenditure total of \$202,100 to a final budget of \$315,325. A major contributing factor in the increase were purchases for equipment used by the Fire Department and resurfacing of roads throughout the town.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital assets - Oak City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$1,855,241 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, bridges, etc.), and machinery and equipment. The net increase in the Town's investment in fixed assets for the current year was \$43,267.

Major capital asset events during the current fiscal year included the following:

- The purchase of new equipment for the fire department
- Chip sealing of roads throughout town
- Resurfacing of tennis/basketball court
- Building of fence around cemetery
- Replaced windows and stuccoed Town Hall
- Construction of new road

## OAK CITY'S CAPITAL ASSETS

	Governmental Activities		Business-type Activities	
	<u>2005-2006</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2004-2005</u>
Capital Assets Not Being Depreciated				
Land	\$ 92,926	\$ 92,926	\$ 5,710	\$ 5,710
Water Rights	-	-	159,790	159,790
Capital Assets Being Depreciated				
Building and Structures				
Improvements and Infrastructure	827,232	649,910	2,043,841	2,034,539
Machinery, Equipment and Vehicles	<u>231,079</u>	<u>217,381</u>	<u>27,432</u>	<u>27,432</u>
Total	1,151,237	960,217	2,236,773	2,227,471
Less Accumulated Depreciation	<u>(477,975)</u>	<u>(417,347)</u>	<u>(1,054,794)</u>	<u>(958,367)</u>
Total Capital Assets	\$ <u>673,262</u>	\$ <u>542,870</u>	\$ <u>1,181,979</u>	\$ <u>1,269,104</u>

Additional information on the Town's capital assets can be found in the footnotes to this financial report and also the supplemental section.

Long-term debt - At June 30, 2006, the Town had total bonded debt outstanding of \$926,119. Of this amount \$832,000 is considered to be Revenue Bonds. These bonds were issued specifically for water development projects and the water enterprise fund provides all funding for the bonds' repayment. \$94,119 are note payables also for water system improvement projects, paid for with funds from the water fund.

## OAK CITY'S OUTSTANDING DEBT

	Business-type Activities	
	<u>2005-2006</u>	<u>2004-2005</u>
Notes Payable-1989 Loan	\$ 94,119	\$ 110,219
Revenue Bonds - 1987	0	6,175
Revenue Bonds - 2000	<u>832,000</u>	<u>839,000</u>
Total Outstanding Debt	\$ <u>926,119</u>	\$ <u>955,394</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value. The Town has no outstanding general obligation debt.

Additional information on the outstanding debt obligations of the Town can be found in the footnotes to this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The unemployment rate for Millard County (of which Oak City is a part of) was 3.8 % compared with a state unemployment rate of 4.0% and a national rate of 5.0%.
- The General Fund budget for the fiscal year-ending June 30, 2007 includes the completion of the street and sidewalk improvements, new carpet in the Town Hall and park upgrades.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Oak City's finances for all those with an interest in the Town's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to:

DeAnn Steele  
Treasurer  
P.O. Box 217  
Oak City, UT 84649.

**BASIC FINANCIAL STATEMENTS**

# OAK CITY

## STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities	Business-type Activities	Totals
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 74,126	\$ 442,853	\$ 516,979
Accounts Receivable	18,724	35,416	54,140
Other Assets	67	-	67
<b>TOTAL CURRENT ASSETS</b>	<b>92,917</b>	<b>478,269</b>	<b>571,186</b>
<b>NONCURRENT ASSETS</b>			
<b>Restricted Assets</b>			
Cash and Cash Equivalents	80,767	99,230	179,997
<b>Capital Assets</b>			
Non Depreciable	92,926	165,500	258,426
Depreciable Assets (net of Depreciation)	580,336	1,016,479	1,596,815
<b>TOTAL NONCURRENT ASSETS</b>	<b>754,029</b>	<b>1,281,209</b>	<b>2,035,238</b>
<b>TOTAL ASSETS</b>	<b>846,946</b>	<b>1,759,478</b>	<b>2,606,424</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	7,524	24,522	32,046
<b>TOTAL CURRENT LIABILITIES</b>	<b>7,524</b>	<b>24,522</b>	<b>32,046</b>
<b>NONCURRENT LIABILITIES</b>			
Due Within One Year	-	23,100	23,100
Due in more than One Year	-	903,019	903,019
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>-</b>	<b>926,119</b>	<b>926,119</b>
<b>TOTAL LIABILITIES</b>	<b>7,524</b>	<b>950,641</b>	<b>958,165</b>
<b>NET ASSETS</b>			
<b>Investment in Capital Assets,</b>			
Net of Related Debt	673,262	248,372	921,634
Capital Projects	80,767	-	80,767
Unrestricted	85,393	560,465	645,858
<b>TOTAL NET ASSETS</b>	<b>\$ 839,422</b>	<b>\$ 808,837</b>	<b>\$ 1,648,259</b>

See the accompanying notes to the financial statements



# OAK CITY

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
<b>FUNCTIONS/PROGRAMS</b>				
<b>Governmental Activities</b>				
General Government	\$ 43,557	\$ 3,921	\$ -	\$ -
Public Safety	24,027	17,775	11,026	-
Streets	47,651	-	-	29,985
Landfill	25,862	26,197	-	-
Parks and Recreation	30,283	9,704	-	-
Cemetery	6,552	3,320	-	-
Total Governmental Activities	177,932	60,917	11,026	29,985
<b>Business-type Activities</b>				
Water	117,708	102,377	-	-
Electric	188,616	202,339	-	-
Total Business-type Activities	306,324	304,716	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 484,256</b>	<b>\$ 365,633</b>	<b>\$ 11,026</b>	<b>\$ 29,985</b>

### General Revenues

Property Taxes

Vehicle Taxes

Sales Taxes

Franchise Taxes

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

See the accompanying notes to the financial statements

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**Net (Expense) Revenue and Changes in Net Assets**

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**Primary Government**

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<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (39,636)	-	\$ (39,636)
4,774	-	4,774
(17,666)	-	(17,666)
335	-	335
(20,579)	-	(20,579)
<u>(3,232)</u>	<u>-</u>	<u>(3,232)</u>
 (76,004)	 -	 (76,004)
 -	(15,331)	(15,331)
<u>-</u>	<u>13,723</u>	<u>13,723</u>
 -	(1,608)	(1,608)
<u>(76,004)</u>	<u>(1,608)</u>	<u>(77,612)</u>
 10,965	-	10,965
4,725	-	4,725
50,814	-	50,814
2,230	-	2,230
10,769	17,732	28,501
<u>147</u>	<u>-</u>	<u>147</u>
<u>79,650</u>	<u>17,732</u>	<u>97,382</u>
3,646	16,124	19,770
<u>835,776</u>	<u>792,713</u>	<u>1,628,489</u>
 \$ 839,422	 \$ 808,837	 \$ 1,648,259

**OAK CITY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2006**

	Governmental-type Activities
	General
<b><u>ASSETS</u></b>	
Cash and Cash Equivalents	\$ 74,126
Restricted Cash	80,767
Accounts Receivable	1,628
Taxes Receivable	10,776
Class C Road Receivable	6,320
Other Assets	<u>67</u>
 TOTAL ASSETS	 \$ <u>173,684</u>
 <b><u>LIABILITIES AND FUND EQUITY</u></b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 7,524
Deferred Revenue	<u>10,776</u>
 TOTAL LIABILITIES	 <u>18,300</u>
 <b>FUND BALANCE</b>	
Designated	
Cemetery Endowments	51,229
Construction	29,538
Unreserved	<u>74,617</u>
 TOTAL FUND EQUITY	 <u>155,384</u>
TOTAL LIABILITIES AND FUND EQUITY	 \$ <u>173,684</u>

See the accompanying notes to the financial statements

# OAK CITY

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2006

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TOTAL GOVERNMENTAL FUNDS BALANCES	\$	155,384
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*Amounts reported for governmental activities in the statement of net assets are different because*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds		673,262
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds		<u>10,776</u>
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TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>839,422</u>
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See the accompanying notes to the financial statements

# OAK CITY

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Governmental-type Activities
	<u>General</u>
<b><u>REVENUES</u></b>	
Taxes	\$ 68,400
Licenses and Permits	2,351
Intergovernmental	41,011
Charges for Services	58,566
Interest	10,769
Miscellaneous	<u>147</u>
 TOTAL REVENUES	 <u>181,244</u>
 <b><u>EXPENDITURES</u></b>	
General Government	45,337
Public Safety	19,899
Streets	143,592
Landfill	25,862
Parks and Recreation	54,726
Cemetery	<u>18,908</u>
 TOTAL EXPENDITURES	 <u>308,324</u>
 EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	  (127,080)
 BEGINNING FUND BALANCE	 <u>282,464</u>
 ENDING FUND BALANCE	 <u>\$ 155,384</u>

See the accompanying notes to the financial statements

# **OAK CITY**

## **RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006**

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**EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES  
OVER EXPENDITURES AND USES - TOTAL GOVERNMENTAL FUNDS** **\$ (127,080)**

*Amounts reported for governmental activities in the statement of  
activities are different because*

Property taxes will not be collected for several months after the City's fiscal year end. They are not considered to be available revenues in the governmental funds. Deferred property tax revenues increased by this amount this year. **334**

Governmental funds report capital outlays as expenditures. In the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. **130,392**

**CHANGE IN NET ASSETS OF GOVERNMENTAL FUNDS** **\$ 3,646**

See the accompanying notes to the financial statements

# OAK CITY

## BUDGETARY COMPARISON SCHEDULE

### GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 65,500	\$ 64,750	\$ 68,400	\$ 3,650
Licenses and Permits	1,450	2,300	2,351	51
Intergovernmental	37,775	28,700	41,011	12,311
Charges for Services	39,300	63,500	58,566	(4,934)
Interest	9,000	10,000	10,769	769
Miscellaneous	-	-	147	147
<b>TOTAL REVENUES</b>	<b>153,025</b>	<b>169,250</b>	<b>181,244</b>	<b>11,994</b>
<b>EXPENDITURES</b>				
General Government	47,300	48,100	45,337	2,763
Public Safety	8,500	21,680	19,899	1,781
Streets	52,850	141,300	143,592	(2,292)
Landfill	25,000	25,600	25,862	(262)
Parks and Recreation	50,275	58,670	54,726	3,944
Cemetery	18,175	19,975	18,908	1,067
<b>TOTAL EXPENDITURES</b>	<b>202,100</b>	<b>315,325</b>	<b>308,324</b>	<b>7,001</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>(49,075)</b>	<b>(146,075)</b>	<b>(127,080)</b>	<b>18,995</b>
<b>FUND BALANCE ALLOCATION</b>	<b>49,075</b>	<b>146,075</b>	<b>-</b>	<b>(146,075)</b>
<b>EXCESS (DEFICIT) OF RESOURCES OVER CHARGES TO APPROPRIATIONS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (127,080)</b>	<b>\$ (127,080)</b>

See the accompanying notes to the financial statements

**OAK CITY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2006**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Electric</u>	<u>Total Enterprise Funds</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 194,625	\$ 248,228	442,853
Accounts Receivable	<u>16,380</u>	<u>19,036</u>	<u>35,416</u>
TOTAL CURRENT ASSETS	<u>211,005</u>	<u>267,264</u>	<u>478,269</u>
<b>NONCURRENT ASSETS</b>			
Restricted Assets			
Cash and Cash Equivalents	99,230	-	99,230
Capital Assets			
Land	5,210	500	5,710
Buildings and Improvements	1,892,114	151,727	2,043,841
Machinery, Equipment and Vehicles	12,932	14,500	27,432
Less Accumulated Depreciation	(967,862)	(86,932)	(1,054,794)
Other Assets			
Water Shares	<u>159,790</u>	<u>-</u>	<u>159,790</u>
TOTAL NONCURRENT ASSETS	<u>1,201,414</u>	<u>79,795</u>	<u>1,281,209</u>
TOTAL ASSETS	<u>1,412,419</u>	<u>347,059</u>	<u>1,759,478</u>
<b><u>LIABILITIES</u></b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	95	15,319	15,414
Customer Deposits	-	1,620	1,620
Accrued Interest Payable	7,488	-	7,488
Current Portion of Long-Term Debt	<u>23,100</u>	<u>-</u>	<u>23,100</u>
TOTAL CURRENT LIABILITIES	<u>30,683</u>	<u>16,939</u>	<u>47,622</u>
<b>NONCURRENT LIABILITIES</b>			
Notes Payable	78,019	-	78,019
Bonds Payable	<u>825,000</u>	<u>-</u>	<u>825,000</u>
TOTAL NONCURRENT LIABILITIES	<u>903,019</u>	<u>-</u>	<u>903,019</u>
TOTAL LIABILITIES	<u>933,702</u>	<u>16,939</u>	<u>950,641</u>
<b><u>NET ASSETS</u></b>			
Investment in Capital Assets,			
Net of Related Debt	168,577	79,795	248,372
Unrestricted	<u>310,140</u>	<u>250,325</u>	<u>560,465</u>
TOTAL NET ASSETS	<u>\$ 478,717</u>	<u>\$ 330,120</u>	<u>\$ 808,837</u>

See the accompanying notes to the financial statements



# OAK CITY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Electric</u>	<u>Total Enterprise Funds</u>
<b><u>OPERATING REVENUES</u></b>			
Charges for Services	\$ 102,377	\$ 191,300	\$ 293,677
Connection Fees	-	10,601	10,601
Miscellaneous	-	438	438
 TOTAL OPERATING REVENUES	 <u>102,377</u>	 <u>202,339</u>	 <u>304,716</u>
 <b><u>OPERATING EXPENSES</u></b>			
Salaries and Wages	2,756	5,540	8,296
Operations	8,534	178,029	186,563
Depreciation	<u>91,379</u>	<u>5,047</u>	<u>96,426</u>
 TOTAL OPERATING EXPENSES	 <u>102,669</u>	 <u>188,616</u>	 <u>291,285</u>
 OPERATING INCOME	 <u>(292)</u>	 <u>13,723</u>	 <u>13,431</u>
 <b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>			
Interest Income	9,247	8,485	17,732
Interest Expense	<u>(15,039)</u>	<u>-</u>	<u>(15,039)</u>
 TOTAL NON-OPERATING REVENUES (EXPENSES)	 <u>(5,792)</u>	 <u>8,485</u>	 <u>2,693</u>
 CHANGE IN NET ASSETS	 <u>(6,084)</u>	 <u>22,208</u>	 <u>16,124</u>
 TOTAL NET ASSETS AT BEGINNING OF YEAR	 <u>484,801</u>	 <u>307,912</u>	 <u>792,713</u>
 TOTAL NET ASSETS AT END OF YEAR	 <u>\$ 478,717</u>	 <u>\$ 330,120</u>	 <u>\$ 808,837</u>

See the accompanying notes to the financial statements

# OAK CITY

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Electric</u>	<u>Total Enterprise Funds</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Receipts from Customers	\$ 97,340	\$ 200,852	\$ 298,192
Payments to Suppliers	(8,616)	(164,077)	(172,693)
Payments to Employees	(2,756)	(5,540)	(8,296)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>85,968</u>	<u>31,235</u>	<u>117,203</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>			
Acquisition of Capital Assets	-	(9,301)	(9,301)
Bond and Note Principal Payments	(29,338)	-	(29,338)
Interest Expense	(15,039)	-	(15,039)
<b>NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(44,377)</u>	<u>(9,301)</u>	<u>(53,678)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Interest Income	<u>9,247</u>	<u>8,485</u>	<u>17,732</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<u>9,247</u>	<u>8,485</u>	<u>17,732</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>50,838</u>	<u>30,419</u>	<u>81,257</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>243,017</u>	<u>217,809</u>	<u>460,826</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 293,855</u>	<u>\$ 248,228</u>	<u>\$ 542,083</u>

See the accompanying notes to the financial statements

# OAK CITY

## STATEMENT OF CASH FLOWS (CONTINUED)

### PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Electric</u>	<u>Total Enterprise Funds</u>
<u>RECONCILIATION OF OPERATING</u>			
<u>INCOME TO NET CASH FLOWS FROM</u>			
<u>OPERATING ACTIVITIES</u>			
Operating Income (Loss)	\$ (292)	\$ 13,723	\$ 13,431
Adjustments			
Depreciation	91,379	5,047	96,426
Changes in Assets and Liabilities			
Accounts Receivable	(5,037)	(1,487)	(6,524)
Accounts Payable	(82)	13,932	13,850
Customer Deposits	-	20	20
NET CASH FLOWS FROM OPERATING			
ACTIVITIES	<u>\$ 85,968</u>	<u>\$ 31,235</u>	<u>\$ 117,203</u>

See the accompanying notes to the financial statements

# **OAK CITY, UTAH**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **JUNE 30, 2006**

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Oak City, Utah (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of the City's accounting policies.

##### **Financial Reporting Entity**

Oak City was incorporated in 1855 under the laws of the State of Utah. The City is a municipal corporation governed by an elected five-member Council and Mayor. The City provides municipal services under the following organizational structure:

General Government: Mayor and City Council, Treasurer and Clerk

Public Safety: Fire

Public Works: Streets, Landfill, Water and Electric

Parks and Recreation

Cemetery

##### **Government-wide and Fund Financial Statements**

The government-wide financial statements (statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers who directly benefit from goods or services provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## NOTE 1 - (CONTINUED)

### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Financial resources used to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than as an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (within sixty days) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, use taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water production, treatment and distribution operations.

The *electric fund* accounts for the activities of the City's electric generation and distribution operations.

Activities of these two funds include administration, operations and maintenance of the systems, and billing and collection. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for all water and electric fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

## NOTE 1 - (CONTINUED)

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### Assets, Liabilities and Fund Equity

#### A. Cash and cash equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. City policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund (Fund) and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The Fund operates in accordance with state laws and regulations. The reported value of the City's cash in the Fund is the same as the fair value of the Fund shares.

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this definition.

#### B. Restricted assets

Cash which is restricted to a particular use due to statutory, budgetary or bonding requirements is classified as "restricted cash" on the statement of net assets and on the balance sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

#### C. Capital assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, if purchased, and at fair market value at the date of the gift, if donated.

Major additions are capitalized, while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense.

## NOTE 1 - (CONTINUED)

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

<u>Classification</u>	<u>Range of Lives</u>
Buildings and Structures	10-40 years
Improvements and Infrastructure	10-40 years
Machinery, Equipment and Vehicles	3-15 years

### D. Long-term liabilities

In the government-wide financial statements, and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the related debt. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### E. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designations of unreserved fund balances are not required by law or accounting principles, but are further classifications of fund equity to identify funds which are earmarked by the City's management for specific purposes. These represent tentative management plans that are subject to change.

### F. Net assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

## NOTE 1 - (CONTINUED)

### Inter-Fund Transactions

During the course of normal operations, the City has transactions between funds to subsidize operations in certain funds, to allocate administrative costs, to construct assets, to distribute grant proceeds, etc. . These transactions are generally reflected as operating transfers, which are transfers from a fund authorized to receive certain revenues to the fund through which the resources are to be expended.

### Deferred Revenue

Property taxes due November 30, 2006 and unpaid from 2005 are shown as deferred revenue.

### Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

#### **Capital Asset Differences**

When capital assets (land, buildings, improvements and equipment) are purchased or constructed for use in governmental fund activities, the costs of those assets are reported as expenditures in the governmental funds. However, those costs are reported as capital assets in the statement of net assets. The details of these differences are presented below:

Land	\$ 92,926
Buildings and Improvements	827,232
Machinery, Equipment and Vehicles	231,079
Less Accumulated Depreciation	<u>(477,975)</u>
Net Capital Asset Difference	<u>\$ 673,262</u>



## NOTE 2 - (CONTINUED)

### Other Long-Term Asset Differences

Property taxes due in November 2006 are reported as deferred revenues in the governmental fund balance sheet. However, they are reported as current year revenues in the statement of net assets. The details of these differences are presented below:

Property taxes collectible in November 2006	\$ <u>10,776</u>
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### Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund financial statements include a reconciliation between changes in fund balances in the governmental funds and changes in net assets in the government-wide statement of activities. This difference primarily results from the long-term economic focus of the statement of activities versus the current financial resource focus of the governmental fund financial statements.

### Capital Outlay and Depreciation Differences

Capital outlays are reported as expenditures in the statement of revenues, expenditures and changes in fund balances. They are reported as capital assets, with the costs allocated over the useful lives of the assets, as depreciation, in the statement of activities. The details of these differences are reported below:

Capital Outlay	\$ 191,020
Depreciation Expense	<u>(60,628)</u>
Net Difference	\$ <u>130,392</u>

## NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### Budgetary Information

Prior to the first regularly scheduled meeting of the City Council in May, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and proposed sources of revenues.

Between May 1 and June 22, the City Council reviews and adjusts the proposed budget. On or before June 22, a public hearing is held and the budget is legally adopted through passage of a resolution, unless a property tax increase is proposed. If a property tax increase is proposed, a hearing must be held on or before August 17, which does not conflict with other taxing entities that have proposed a property tax increase. At this time the final balanced budget is adopted.

Under Utah State law, the City's budget establishes maximum legal authorization for expenditures during the fiscal year. Expenditures are not to exceed the budgeted amounts, including revisions, except as allowed by the code for certain events.

The Mayor, in conjunction with the appropriate department head, has the authority to transfer budget appropriations within and between any divisions of any budgetary fund. The City Council has the authority to transfer budget appropriations between individual budgetary funds by resolution.

### NOTE 3 - (CONTINUED)

A public hearing must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.

Annual budgets for the general fund, all debt service funds and capital projects funds were legally adopted by the City and are prepared on the modified-accrual method of accounting.

Although Utah State law requires the initial preparation of budgets for all City funds (both governmental and proprietary), it only requires the reporting of comparisons of actual results to budgets for the general fund and any major special revenue funds.

#### Tax Revenues

Property taxes are collected by the County Treasurer and remitted to the City in two to three installments in November, December, and a final settlement in the first quarter of the calendar year. Taxes are levied and are due and payable on November 1<sup>st</sup> and are delinquent after November 30<sup>th</sup> of each year, at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes beyond that which was received within 60 days after the fiscal year end has not been made, as the amounts are not deemed to be material.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly. An accrual has been made for all taxes received by the State for the period ended June 30<sup>th</sup> and thus due and payable to the City.

Franchise taxes are charged to various utility companies doing business with the City including telephone, cable television, gas utility, and electric utility companies. The fees are remitted on a monthly, quarterly, or annual basis. An accrual has been made for all fees due and payable to the City at June 30<sup>th</sup>.

### NOTE 4 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents" which also includes cash accounts that are separately held by several of the City's funds. Deposits are not collateralized nor are they required to be by State statute.

Deposits and investments for City government are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7) (The Act) and by rules of the Utah Money Management Council (the Council). Following are discussions of the City's exposure to various risks related to its cash management activities.

#### Custodial Credit Risk

*Deposits.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the City to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, \$114,122 of the City's bank balances of \$214,122 were uninsured and uncollateralized.

## NOTE 4 - (CONTINUED)

### Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations as defined in the Act.

The City government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subjected to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

The following are the City's investments at June 30, 2006

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
State of Utah Public Treasurer's Investment Fund (PTIF)	\$ 561,619	\$ 561,619	\$ -	\$ -	\$ -

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the City's investments are noted above.

The deposits and investments described above are included on the statement of net assets as per the following reconciliation:

Deposits	\$ 135,357
Investments	<u>561,619</u>
Total	<u>\$ 696,976</u>
Cash and Cash Equivalents	\$ 516,979
Restricted Cash and Cash Equivalents	<u>179,997</u>
Total	<u>\$ 696,976</u>

## NOTE 5 - RECEIVABLES

Property taxes are levied on January 1 of 2006, are due in November of 2006, and are budgeted for the 2006 fiscal year. Even though they are not intended to fund the 2006 fiscal year, they must be recognized as an asset because the City has an enforceable claim to the revenue. The property taxes that have been remitted to the City within 60 days of the end of the current fiscal period have been recognized as revenue. The uncollected, measurable amounts have been accrued as deferred revenue.

Licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other items are considered to be measurable and available only when cash is received by the City.

The following is a summary of receivables at June 30, 2006:

	<u>Activities</u>	<u>Governmental Activities</u>	<u>Business-type Total</u>
Accounts Receivable	\$ 1,628	\$ 35,416	\$ 37,044
Property Taxes Receivable	10,776	-	10,776
Class C Road Receivable	<u>6,320</u>	<u>-</u>	<u>6,320</u>
Total	<u>\$ 18,724</u>	<u>\$ 35,416</u>	<u>\$ 54,140</u>

## NOTE 6 - CAPITAL ASSETS

Several prior period adjustments to capital assets were required due to the implementation of GASB Statement No. 34. Those adjustments are reflected in the prior period adjustment columns of the schedules below.

The following schedule presents the capital activity of the governmental activities for the year ended June 30, 2006.

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital Assets not being Depreciated</b>				
Land	\$ 92,926	\$ -	\$ -	\$ 92,926
<b>Capital Assets being Depreciated</b>				
Buildings and Improvements	649,910	177,322	-	827,232
Machinery, Equipment and Vehicles	<u>217,381</u>	<u>13,698</u>	<u>-</u>	<u>231,079</u>
Total	960,217	191,020	-	1,151,237
Less Accumulated Depreciation	<u>(417,347)</u>	<u>(60,628)</u>	<u>-</u>	<u>(477,975)</u>
Governmental Activities Capital Assets, Net	<u>\$ 542,870</u>	<u>\$ 130,392</u>	<u>\$ -</u>	<u>\$ 673,262</u>

## NOTE 6 - (CONTINUED)

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2006.

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital Assets not being Depreciated</b>				
Land	\$ 5,710	\$ -	\$ -	\$ 5,710
Water Rights	159,790	-	-	159,790
<b>Capital Assets being Depreciated</b>				
Buildings and Improvements	2,034,539	9,302	-	2,043,841
Machinery, Equipment and Vehicles	<u>27,432</u>	<u>-</u>	<u>-</u>	<u>27,432</u>
<b>Total</b>	<b>2,227,471</b>	<b>9,302</b>	<b>-</b>	<b>2,236,773</b>
<b>Less Accumulated Depreciation</b>	<b><u>(958,367)</u></b>	<b><u>(96,427)</u></b>	<b><u>-</u></b>	<b><u>(1,054,794)</u></b>
<b>Business-type Activities Capital Assets, Net</b>	<b><u>\$1,269,104</u></b>	<b><u>\$ (87,125)</u></b>	<b><u>\$ -</u></b>	<b><u>\$1,181,979</u></b>

Depreciation was charged to the functions/programs of the primary government as follows:

<b>Government Activities</b>	
General Government	\$ 1,120
Public Safety	12,560
Streets	33,773
Parks and Recreation	10,091
Cemetery	<u>3,084</u>
<b>Total Depreciation Expense-Governmental Activities</b>	<b><u>\$ 60,628</u></b>
<b>Business-type Activities</b>	
Water	\$ 91,379
Electric	<u>5,047</u>
<b>Total Depreciation Expense-Business-type Activities</b>	<b><u>\$ 96,426</u></b>

## NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts Payable	\$ 7,524	\$ 15,414
Customer Deposits	-	1,620
Accrued Interest Payable	<u>-</u>	<u>7,488</u>
<b>Total Accounts Payable and Accrued Liabilities</b>	<b><u>\$ 7,524</u></b>	<b><u>\$ 24,522</u></b>

## NOTE 8 - LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Business-type Activities</u></b>					
<b>Notes Payable</b>					
1989 Safe Drinking Water Loan	\$ 110,219	\$ -	\$ 16,100	\$ 94,119	\$ 16,100
<b>Revenue Bonds</b>					
1987 Water	6,175	-	6,175	-	-
2000 Water	<u>839,000</u>	<u>-</u>	<u>7,000</u>	<u>832,000</u>	<u>7,000</u>
	<u>\$ 955,394</u>	<u>\$ -</u>	<u>\$ 29,275</u>	<u>\$ 926,119</u>	<u>\$ 23,100</u>

Long-term debt and obligations payable at June 30, 2006 were as follows:

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Current Portion</u>	<u>Long-term Balance</u>
<b><u>Business-type Activities</u></b>				
<b>Notes Payable</b>				
1989 Safe Drinking Water Loan (original amount--\$352,000)	0.0%	2012	\$ 16,100	\$ 78,019
<b>Bonds Payable</b>				
Water Revenue Bonds, Series 2000, Dated August 1, 2000 (original amount--\$867,000)	1.8%	2026	<u>7,000</u>	<u>825,000</u>
<b>Total Business-type Activities Long-term Debt</b>			<u>\$ 23,100</u>	<u>\$ 903,019</u>

Principal and interest requirements to retire the City's long-term obligations are as follows:

	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 23,100	\$ 14,976
2008	53,100	14,850
2009	53,100	14,184
2010	54,100	13,518
2011	54,000	12,834
2012-2015	219,719	53,388
2016-2020	224,000	34,290
2021-2025	<u>245,000</u>	<u>13,410</u>
	<u>\$ 926,119</u>	<u>\$ 171,450</u>

## **NOTE 9 - RELATED ORGANIZATION - UTAH ASSOCIATED MUNICIPAL POWER SYSTEM**

On June 10, 1982, Oak City entered into a power purchase contract with Utah Associated Municipal Power Systems (UAMPS). UAMPS is a consortium of 21 municipalities agreeing to purchase electrical power produced at the "Hunter II" power plant.

In order to enable UAMPS to make the loan and to issue its bonds to pay the cost of acquiring and constructing the Hunter Project, it was necessary for UAMPS to have substantially similar binding contracts with the participants, to pledge the payment required to be made in accordance with such contracts with respect to the pre-acquisition costs to the payment of the loan and to pledge the other payments required to be made in accordance with such contracts as security for the payment of the bonds.

In the event of any default, the participant shall not be relieved of its liability for payment of the amounts in default and UAMPS shall have the right to recover from the participant any amount in default. In enforcement of any such right of recovery, UAMPS may bring any suit, action, or proceeding in law as may be necessary or appropriate to enforce any covenant, agreement or obligation to make any payment for which provision is made in this Power Sales Contract against the participant and, from and after the effective date of the Agreement to Sell an Ownership Interest, UAMPS may, upon sixty days written notice to the participant, cease and discontinue providing all or any portion of the participant's power entitlement share. The bond issuance provided \$47,000,000 for acquisition cost of the Hunter II facilities and the balance of the monies are to be utilized for start-up costs and working capital. The City is also responsible for their share of start-up losses incurred.

Complete financial statements for UAMPS can be obtained from the UAMPS administrative office at 8722 South 300 West, Sandy, Utah.

## **NOTE 10 - JOINT VENTURE - INTERMOUNTAIN POWER AGENCY**

Oak City owns a .04% interest in Intermountain Power Agency (IPA). IPA was formed by an Organization Agreement May 10, 1977 pursuant to the provisions of the Utah Interlocal Co-operation Act. The Organization Agreement has a term of fifty years. IPA's purpose is to own, acquire, construct, operate, maintain, and repair a two-unit, 1600 megawatt net, coal-fired, steam-electric generating plant and switchyard located in Millard County, Utah and transmission systems through portions of Utah, Nevada, and California.

IPA has signed contracts to sell their entire capacity to 36 utilities consisting of six California municipalities, Utah Power & Light Company, twenty-three Utah municipalities, and six rural electrical cooperatives (the Purchasers). The contracts expire on June 15, 2027 and, as long as any of the Bonds are outstanding, cannot be terminated nor amended in any manner which will impair or adversely affect the rights of the bondholders. Under the terms of the contracts, the Purchasers are obligated to pay their proportionate share of all operation and maintenance expenses and debt service on the Bonds and any other debt incurred by IPA, whether or not the Project or any part thereof has been completed, is operating or operable, or its output is suspended, interrupted, interfered with, reduced, or terminated.

## NOTE 10 - (CONTINUED)

Additional information is as follows:

a. Participants and their Generation Entitlement Shares:

Six California Purchasers	74.943%
Twenty-three Utah Purchasers	14.040%
Six Cooperative Purchasers	7.017%
Utah Power & Light Company	<u>4.000%</u>
Total - 36 Purchasers	<u>100.000%</u>

b. Summary financial information of IPA at June 30, 2005 (in thousands) is as follows:

	<u>IPA</u>
Total Assets	<u>\$ 3,108,264</u>
Total Liabilities	<u>\$ 3,108,264</u>
Operating Revenue	\$ 606,231
Operating Expenses and Cost of Sales	<u>392,551</u>
Operating Income	213,680
Nonoperating Income	2,590
Net Interest Charges	<u>(203,113)</u>
Net Costs Recovered (to be Recovered) from Future Billings to Participants	<u>\$ 13,157</u>

c. IPA has the following long-term debt:

Bonds Payable	<u>\$ 1,572,048</u>
Subordinated Notes Payable	<u>\$ 818,306</u>

d. Audited financial statements for Intermountain Power Agency are available at the Agency's offices located at 480 East 6400 South, Suite 200 Murray Utah 84107.

## NOTE 11 - RESERVED FUND EQUITY

The Class "C" Roads allotment from the state excise tax is reserved for construction and maintenance of City streets and roads. The City's bond covenants require certain reservations of retained earnings in the water fund. In addition, amounts have been designated in the general fund for various capital projects.

## NOTE 12 - RISK MANAGEMENT

Oak City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance coverage through a commercial insurance company to cover these risks of loss. Settled claims from this risk type have not exceeded coverage in any of the past three fiscal years.

## NOTE 13 - RELATED PARTY TRANSACTIONS

The City Treasurer is the wife of a City Councilmember.



**SUPPLEMENTARY INFORMATION**

## **OAK CITY**

### **SCHEDULE OF IMPACT FEES**

**JUNE 30, 2006**

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The City collects only water impact fees. No impact fees were collected during 2006. They have no balance of impact fees on hand at June 30, 2006. Future collections will be used to repay the bonds necessary for the construction of the new water well in in 2001. The bond payments range from \$15,000 to more than \$50,000 through 2026. Growth is minimal. Management believes that impact fees will never exceed the bond payments due.

**STATE LEGAL COMPLIANCE REPORT**

**GREG OGDEN, CPA  
1761 EAST 850 SOUTH  
SPRINGVILLE, UT 84663  
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE**

**August 21, 2006**

**Honorable Mayor  
Members of the City Council  
Oak City, Utah**

**Council Members:**

**I have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund, which collectively comprise the basic financial statements of Oak City, Utah, for the year ended June 30, 2006 and have issued my report thereon dated August 21, 2006. As part of my audit, I have audited Oak City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:**

**"C" Road Funds (Department of Transportation)  
Liquor Law Enforcement (State Tax Commission)**

**The City also received the following nonmajor grant which is not required to be audited for specific compliance requirements: (However, this program was subject to testwork as part of the audit of the City's financial statements.)**

**Fire Department Assistance Grant**

**My audit also included testwork on the City's compliance with the following general compliance requirements identified in the State of Utah Compliance Audit Guide, including:**

**Public Debt  
Cash Management  
Purchasing Requirements  
Budgetary Compliance  
Truth in Taxation and  
Property Tax Limitations**

**Class C Road Funds  
Other General Issues  
Uniform Building Code Standards  
Liquor Law Enforcement  
Impact Fees**

**The management of Oak City is responsible for the City's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.**

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to above, which is described in the accompanying management letter. I considered this instance of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

In my opinion, Oak City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

  
Greg Ogden  
Certified Public Accountant

**GOVERNMENT AUDITING STANDARDS REPORT**

GREG OGDEN, CPA  
1761 EAST 850 SOUTH  
SPRINGVILLE, UT 84663  
(801)489-8408

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**August 21, 2006**

Honorable Mayor  
Members of the City Council  
Oak City, Utah

**Council Members:**

I have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Oak City, Utah, (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued my report thereon dated August 21, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered Oak City, Utah's control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Oak City, Utah's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, the City's management, others within the organization, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

  
Greg Ogden,  
Certified Public Accountant

**OAK CITY, UTAH**

**MANAGEMENT LETTER**  
**JUNE 30, 2006**



**GREG OGDEN, CPA  
1761 EAST 850 SOUTH  
SPRINGVILLE, UT 84663  
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**August 21, 2006**

**Honorable Mayor  
Members of the City Council  
50 West Center  
Oak City, Utah 84649**

**Council Members:**

The primary purpose of my audit of the basic financial statements of Oak City, Utah for the year ended June 30, 2006, was to enable me to form an opinion as to the financial position of the City at that date and the results of its operations for the year then ended. Part of my continuing professional responsibility to my clients is to offer constructive suggestions relative to the City's internal control structure and other matters that come to my attention during my audit of your financial statements. Your internal control structure is extremely important because it is the principal safeguard against irregularities which an audit may not disclose.

Enclosed for your information and consideration are my comments and suggestions relating to internal accounting controls and other general matters which came to my attention during my audit of the financial statements. I have not performed any auditing procedures beyond the date of my opinion on the financial statements; accordingly, this letter is based on my knowledge as of that date and should be read with that understanding.


In those instances where the need for improvement of internal accounting controls may be indicated, I have satisfied myself by extension of audit tests and review that the indicated weaknesses have not had a significant effect upon the financial statements for the year ended June 30, 2006. Since the purpose of my audit was not to make an intensive study of the matters commented upon, additional investigation may be required before acting on my suggestions.

My suggestions deal exclusively with operational, accounting, and recordkeeping systems and procedures, and should not be regarded as a reflection on the integrity or capabilities of anyone in your organization.

I appreciate the cooperation and assistance I have received from the City's personnel in connection with my audit and in developing these recommendations.

This report is intended solely for the use of the management of Oak City. However, this report is a matter of public record and its distribution is not limited.

I would be pleased to discuss any of these matters with you and your representatives at your convenience and, if desired, to assist you in implementing any of these suggestions.

  
Greg Ogden,  
Certified Public Accountant

## **STATE COMPLIANCE REQUIREMENT FINDING**

### **FINDING - EXPENDITURES IN EXCESS OF BUDGET**

For the year ended June 30, 2005, expenditures exceeded the budget in two departments. The budget is the Town's legal spending limit.

### **RECOMMENDATION**

I recommend that the budget be reviewed periodically during the year. If the budget requires amendment during the year, I recommend adoption of an amended budget. Also, all amendments increasing the budget should be presented to the public in a public hearing.

### **RESPONSE - OAK CITY**

We will continue to closely monitor our budget. We will amend it as necessary to comply with state law.